

## FINANCIAL POLICIES

This section identifies some of the major financial policies which serve as a guide for making short-term and long-term budgetary and fiscal decisions. The policies support the strategic direction of the town and contribute directly to the outstanding fiscal reputation of the town. The Town Council of the Town of Herndon, as part of the fiscal year 2012 budget, confirms the following financial policies:

### ***Budget Guidelines***

**Balanced Budget:** The town must adopt a balanced annual budget by July 1 of each fiscal year that will provide the resources necessary to enhance (or at least maintain) the level of quality services expected by its citizens. A balanced budget is defined as one in which total projected revenues and other financing sources are equal to total anticipated disbursements, including established reserves.

*The fiscal year 2012 budget maintains the quality of all existing services and includes continued efforts to address neighborhood revitalization and community livability. Total revenues and other financing sources (such bond proceeds and use of prior year reserves) are equal to total expenditures and other financing uses.*

### **Interfund Borrowing:**

- Before lending between funds can be initiated, the amount of unrestricted, available cash to be retained at all times by the ***lending*** fund should be equivalent to at least six months (or one-half) of the ***lending*** fund's current annual operating and debt service budgets.
- All borrowings will be repaid in their entirety to the ***lending*** fund by the borrowing fund unless specific action is taken by the Town Council to forgive the outstanding balance of the debt. In this case, the outstanding balance of the borrowing would be reclassified from an "inter-fund loan" to an "operating transfer".
- The borrowing will be restricted to financing a specific capital outlay/project of the ***borrowing*** fund and be adequately described in and supported by the town's adopted CIP, budget or budget amendment.
- The maximum lending period will generally be the lesser of 10 years or until the ***lending*** fund's need for its available cash becomes evident. However, if financially feasible by the ***lending*** fund, longer loan periods related to the acquisition and construction of longer-lived assets (i.e., buildings, roads, other infrastructure, etc.) can be considered.
- The interest rate to be charged will be the prevailing interest rate the town could have secured at the time of the borrowing had the funds been invested in specific investment instruments as allowed under the town's adopted Investment and Portfolio Policy.
- Should it become financially feasible and of general benefit to the town as a whole, the outstanding balance of the loan could be returned by the ***borrowing*** fund to the ***lending*** fund on an expedited basis. This can be accomplished by issuing general obligation bonds or undertaking some other financial arrangement.

**Fund Balance:** The undesignated portion of the General Fund unreserved fund balance, as of June 30 of each year, must be maintained at a level that equals, at a minimum, approximately 10 percent of the adopted General Fund operating and debt service expenditures for the subsequent fiscal year.

*Based on this policy, the minimum undesignated, unreserved fund balance for fiscal year 2012 is \$2,981,673. The anticipated unreserved, undesignated fund balance at June 30, 2011 is \$5,475,035.*

Mid-Year Review and Adjustments: During each fiscal mid-year review of the budget, budget adjustments which propose to use General Fund undesignated, unreserved fund balance should be minimized to address only critical issues. Nevertheless, funds in excess of the recommended 10 percent of undesignated, unreserved fund balance may be available for appropriation by the Town Council to meet deferred or newly identified operational or capital requirements.

*The fiscal year 2012 budget continues to adhere to this policy.*

## **Revenues**

Diversification: The town shall take proactive steps to maintain a diversified revenue stream to lessen its dependence on real estate taxes as the primary source of General Fund revenue and to shelter the town's finances from short-term fluctuations in any single revenue source.

*The fiscal year 2012 budget maintains a diversified revenue base with combined business and consumer-related taxes and permits, (e.g., other local taxes such as transient lodging taxes, meals taxes, five percent communications sale and use tax, consumer utility taxes, business license fees, and sales taxes) and receipts from charges for services constituting 55 percent of total General Fund recurring revenues. Total projected general property taxes for fiscal year 2012 will provide 31 percent of total General Fund revenues and other financing sources.*

Fees and Charges: The town strives to set enterprise fund fees and charges at a level sufficient to recover all costs not subsidized by non-operating revenues (such as interest earnings and availability fees) and use of prior year reserves. In addition, all Parks and Recreation receipts are designed to offset at least 70 percent of its personnel, operations and maintenance (O&M) and minor capital, less those costs attributed to non-revenue generating community programs.

*The fiscal year 2012 budget for the enterprise funds (Water and Sewer Fund, Chestnut Grove Cemetery Fund, Golf Course Fund and Downtown Parking Enterprise Fund) are fully self-sufficient and require no operating transfers from the General Fund. Total projected Parks & Recreation receipts for fiscal year 2012 are expected to be 70 percent of anticipated operating costs as defined by the policy.*

Use of One-Time Revenues: One-time revenues and receipts should be used for capital outlay or one-time operating costs and not for ongoing expenditures.

*The fiscal year 2012 budget anticipates using \$261,000 in General Fund undesignated, unreserved fund balance to finance a portion of the General Fund's fiscal year 2012 capital improvement program transfer and fund certain one-time costs contained in the General Fund operating budget.*

## **Expenditures**

Operating Expenditures: The town maintains budgetary control at the fund and department level. Monthly reports of comprehensive financial data for each of the town's activity centers will be generated; displaying such information as approved budget amounts, detailed line item expenditure and encumbrance transactions, any budget transfers, and remaining budget balance by line item. In addition, a condensed quarterly report is prepared for the Town Council which compares actual to budgeted/projected revenues and expenditures for all funds of the town. The report notes any significant variances from expected results and recommends actions to bring the budget into balance, if necessary.

*The fiscal year 2012 budget continues to adhere to this policy.*

## **Debt Service**

- The town strives to retain, at a minimum, an A+/A1 credit rating from at least two of the three major municipal bond credit rating services (e.g., Moody's Investors Services; Standard & Poor's Credit Market Services; and Fitch Ratings, Inc.).

*In June 2010, the town's credit rating was upgraded by Fitch from AA+ to AAA. Shortly thereafter, in July 2010, the town's credit rating from Standard & Poor's was also upgraded from AA+ to AAA. The town's current credit ratings are as follows: AAA from Fitch; Aa1 from Moody's, and; AAA from Standard & Poor's.*

- On average, the town's annual General Fund debt service as a percentage of General Fund operating and debt service expenditures should not exceed 12 percent.

*For fiscal year 2012, General Fund debt service will be 7.0 percent of combined General Fund operating and debt service expenditures.*

- The town's outstanding debt-per-capita at the end of the fiscal year will not exceed the maximum allowable established in FY 1994 (the base year), after taking into account adjustments for inflation and income growth over the succeeding fiscal years. To calculate the maximum debt-per-capita in any given year, the town uses a very conservative growth rate of one percent per fiscal year.

*Based on this formula, the fiscal year 2012 maximum debt-per-capita is \$1,196 and the estimated debt-per-capita is \$697.*

- The town's debt as a percentage of assessed value should not exceed three percent.

*The most recent comprehensive annual financial report (fiscal year 2010) placed the town's outstanding debt as a percentage of assessed value at 0.49 percent. At July 1, 2011, the estimated percentage will be 0.48 percent. The Code of Virginia limits the town's debt to 10 percent of assessed value. Based on this restriction, the town's total outstanding debt cannot exceed \$345,663,538 during fiscal year 2012.*

- The town reserves, at a minimum, 20 percent of its annual maximum General Fund debt capacity to be used in an emergency or for unforeseen circumstances. The town's annual maximum General Fund debt capacity is that amount which conforms to all three of the town's debt capacity parameters which are (1) debt per capita; (2) percent of annual debt service to combined General Fund operating and debt service expenditures; and (3) total debt as a percentage of assessed property values.

*For fiscal year 2012, the General Fund maximum bonded debt capacity is \$28,409,000. The 20 percent reserve on \$28,409,000 is \$5,681,800. Thus, the potential maximum allowable General Fund outstanding bonded debt, when taking into account the reserved amount, is \$22,727,200. At June 30, 2012, the projected General Fund outstanding bonded debt will be \$16,565,751.*

#### Capital Improvement Program:

- To facilitate the financial planning and decision making process, the town will annually prepare a six year projection of General Fund revenues and expenditures, Undesignated Fund Balance, and Capital Financing Potential;

*The Capital Improvement Program (CIP) for fiscal years 2012 through 2017 was adopted by the Planning Commission on March 7, 2011. The fiscal year 2012 portion of the CIP is incorporated into the town's fiscal year 2012 budget and is adopted as part of the fiscal year 2012 annual budget. The remaining years of the CIP (fiscal years 2013 through 2017) are scheduled for Town Council public hearing and adoption in May 2011.*

- The CIP project totals must conform closely to the constraints identified in the annual projection of revenues, expenditures, fund balance and available funds for capital projects;

*The CIP for fiscal years 2012 through 2017 continues to adhere to this policy.*

- The town funds a portion of capital improvements with current revenues. The long-term goal is to dedicate a minimum of 10 percent of total General Fund revenues to fund CIP projects. These revenues do not include other financing sources such as proceeds from the sale of land and buildings, bond issues, capital leases or use of unreserved, undesignated fund balance.

*For fiscal year 2012, the General Fund will provide \$675,000 of recurring revenues to fund a portion of the fiscal year 2012 General Fund CIP costs. In addition to recurring revenues, a judicious use of General Fund undesignated fund balance, bond issue proceeds and local, state and federal capital grant sources will provide the remaining resources necessary to finance the fiscal year 2012 portion of the CIP.*

- Enterprise fund revenues are to be used to support construction costs or debt service for capital facilities for the respective operations whenever possible. General Fund transfers may be used to support the development of Enterprise Fund capital facilities.

*The CIP for fiscal years 2012 through 2017 continues to adhere to this policy.*

- Additional operating expenditures or net cost savings, which result from the acquisition or construction of major public facilities, must be factored into the town's total projected operating expenditures for subsequent fiscal years.

*A critical component in analyzing each individual capital project is its projected future operating and debt service costs or potential cost savings. These additional costs or savings are more fully described in the CIP document itself; in the Town Manager's Recommended Fiscal Year 2012 Budget transmittal letter; in the section describing the fiscal year 2012 General Fund Inter-fund Transfers and in the fiscal year 2012 Capital Projects Funds budget.*